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Analysis of Municipal Pipe Network Franchise Institution

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Abstract

Franchise institution of municipal pipe network has some particularity due to the characteristic of itself. According to the exposition of Chinese municipal pipe network industry franchise institution, the article investigates the necessity of implementing municipal pipe network franchise institution in China, the role of government in the process and so on. And this offers support for the successful implementation of municipal pipe network franchise institution in China.

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1. Introduction

The municipal pipe network franchise institution is a kind of distinctive management pattern, which carries out municipal pipe network with compensation. The background of franchise institution is that municipal pipe network construction is needed urgently at the specific stage of national economic development, national economy has been developed rapidly, and the standard of people's living has been improved greatly. But national financial is limited; it can not bear the large capital requirement for the construction of municipal pipe network. So in the market economy system, it is necessary to reform municipal pipe network construction investment system, formulate gradually perfect regulations of the municipal pipe network franchise and provide legal protection[1].

Municipal pipe network franchise means that enterprises have the right granted by the government to manage some municipal pipe network in a certain period of Time, namely franchise right. Within the prescribed time, enterprises should undertake the financing, construction, operation management and maintenance task of the municipal pipe network construction in accordance with the state-approved

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municipal pipe network regulations, standards, pipe network tendency. Simultaneously, enterprises legally get the right to charge and the management right of the relative facilities; they can pay back the program debt by comprehensive exploitation management, and receive the expectation investment return. Government definite the rights and obligations with the enterprises obtained franchise right by contract protocol or other methods. After the time, it is obligatory for the enterprise to transplant the good pipe network to government free. The basic characteristics of municipal pipe network franchise right is according to the relative laws, regulations and standards, rules the economic relations between station and enterprises by franchise agreement, definite each rights, responsibilities and obligations in the municipal pipe network construction and operation.

2. The characteristics of municipal pipe network franchise

Municipal pipe network has the scope of application scope abroadly, though there are much different between the industries, it has the following characteristics:

Firstly, Municipal pipe network has a basic status in the urban economic development and social life. This mainly reflects on two aspects: one is that the productions and service it providing is the basic condition for the output of urban production sectors and people's life, it provides not only the necessary basic condition for the productive activities in manufacturing, processing industry, business and service industry and various industries, but also the necessary basis of life for the urban residents; the other is that the price of productions and service it providing constitutes the cost of other departments', the change of performance and price must bring about a chain reaction on other departments. For example, thermal mainly applies to the consumption of residents and industry, business and so on. Because of this, thermal is not only the necessary basic of life for citizens, but also the basic condition of productive activities in industry, business and various industries, the price change of thermal inevitably affect the life level of citizens, and make chain reactions to other industries and business sectors even more. Simultaneously, the basic of municipal pipe network means that it holds the pilot; it should be developed preferentially if the level of urban cultural and life wants to be improved.

Secondly, Municipal pipe network holds the characteristics that large investment, long investment-returning cycle, strong asset-specific, large sunk costs, significant scale economy and scope economy, etc. Therefore, from the point of view technical economic, it exists cost subadditivity [2]. The concrete express form: in the context of specific business, the certain amount of productions or service provided by one enterprise has more production efficiency than by two or more enterprises providing equals, namely natural monopoly. At the same time, as municipal pipe network has a very important status in the whole society, has a significant impact on the national economy and people's life, in order to avoid duplication and waste, law endows its independent status within a certain range, allows its monopoly management. All of these are the theoretical basis that municipal pipe network can't accomplish full competition; government must implement accession to market supervision, take franchise institution. Structure

Thirdly, Municipal pipe network industry has production, transmission, distribution and other businesses vertically integrated characteristic. Network transmission service is the core among it, municipal production can enter the consumption area only through the physical network. Therefore, municipal pipe network industry must have a complete and unified network, and implement whole network combined operation, to achieve effective coordination and operation of the network. For this reason, government should encourage enterprise investment, expand network enhance the of the municipal pipe network, better meet the needs of urban production and living.

Fourthly, many productions municipal pipe network providing are different from others, generally service not to a particular object but for the public, and in the process of use and service normally not allow monopolization and exclusive consumption, have obvious public characteristic. More importantly,

the productions municipal pipe network providing is not only the smaller demand elasticity necessities of urban residents, but also the quasi-public goods between public and private, have public welfare characteristic. All of these determine that municipal pipe network has policy nature, it doesn't allow to price absolutely based on market mechanisms even though after the market-oriented reforms on it Government still need to implement price regulations to effectively resident consumers.

Fifthly, the productions of municipal pipe network have higher energy dissipation. Taking the heating system as an example, percent 40 energy of the total consumption in our country city are used to it.

3. The necessity of municipal pipe network franchise

With the rapid development of economy, in more twenty years time, the level of urbanization in our country increases at a rate nearly a percentage point per year, from 17.9% in 1978 to 41.8% in 2005, from more 200 million urban population in 1978 to more 500 million in 2005. It's a remarkable achievement both in the history of human development and worldwide. The next 15 years is still the important stage when our country's urbanization level develops rapidly. Calculated by average annual increase of one percentage point, our country's urbanization level will reach about 58% to 2020, the total population will be 1.47 billion, rural 0.63 billion, urban will reach 0.84 billion. Urbanization developed countries realize (from 30% to 70%), Japan took 70 years, America took 100 years, Britain took 200 years, the time period of China's will greatly be shorten, and also faces enormous challenges and unprecedented pressure at the same time.

Rapid development of urbanization of our country raises enormous challenges and pressure. In the period of rapid development, population will transfer to urban areas rapidly, industries will accumulate in urban areas promptly, and ones are bound to propose great market demand to the development of urban public utilities, higher requirements of the product quantity and service quality it supplies. Whether we can meet the requirements of the rapid development of urbanization or not, whether the urban public utilities and economic society can develop harmoniously, whether can provide a safe, convenient and effective public utilities service system for urban residents, is the inevitable vital and realistic problem and very difficult task in the process of our country urbanization.

3.1. Municipal pipe network franchis institution meets the attributes and characteristics of municipal pipe network

Municipal pipe network has the characteristics that basic, public welfare, Marketability and operation monopolistic and so on. These characteristics are general competitive products can't be compared. The marketization of municipal pipe network construction requires implementing commercialized operation and management to municipal pipe network. But as its basic, public welfare and operation monopolistic characteristics and so on, government must make guidance and supervision to construct and operation. Developing franchising enterprises not only meet the discipline of municipal pipe network operation, but also meet the requirements of government macro-guidance.

3.2. Our country has the necessary conditions for muni-cipal pipe network franchising

With the deepening reform of municipal administration, laws and regulations about municipal pipe network franchise management approach are gradually established and improved. There are many years of experience, coupled with our country's economic strength, stability of financial order, so as to provide a good environment for the implementation of municipal pipe network franchise.

3.3. Municipal pipe network franchise institution is conducive to domestic and international standards

Municipal pipe network franchise is the important experience of developing municipal pipe network in developed countries such as America, Italy, and French and so on. The construction, operation of our country's municipal pipe network industry should learn the international experience about it, with the situation of our country, take a municipal pipe network franchise development road with Chinese characteristics, and make the development of this industry line with international standards gradually.

3.4. The implementation of franchise institution is conducive to standardize the relations between government and enterprises

By signing a franchise agreement, it can clear the responsibilities of government that supervision and guidance and providing service, and the rights, responsibilities and obligations of the enterprises operating municipal pipe network, establish the good interactive mechanism between government and enterprises. The franchise agreement, same as franchise regulations, are the foundation that deal with the relation between government and franchising enterprises, has legally binding force both to government and enterprises, and promote government to raise management level, and operation level and quality of enterprises.

3.5. The implementation of franchise institution is conducive to unify economic benefit enterprises pursuing and social benefit government pursuing

Enterprises operating municipal pipe network has the franchise, the operation well or not directly influent the safety and integrity of municipal pipe network assets and the quality of municipal service. By franchise agreement, it can standardize and coordinate the operation behavior of municipal pipe network operated enterprises and industry management behavior of government, thus the legal rights of enterprises are protected, and also come the government duty of industry management into practice, so can achieve the unity of economic benefit of enterprises and social benefit of municipal pipe network.

3.6. The implementation of franchise institution is conducive to relieve the contradiction that lack of capital during the municipal pipe network establishment

3.7. The implementation of municipal pipe network franchise institution is conducive to the definition of municipal pipe network charge standard and rate.

After the franchise of municipal pipe network, nation definite the toll standard and fee rate by economic law, and approve it in accordance with the program investment cost and investment rate of return, avoiding more administrative intervention and subjective decision, laying foundation for ensuring investment return and getting reasonable benefit.

With the rapid development of world economy, the worldwide competition is fierce gradually. The capital, labor, raw materials factors operated by worldwide enterprises are losing the region advantages but tending to consistency, each country enterprise operators' requirements, pursuing scale expansion needed further reducing operating cost to increase efficiency, become more and more strong. From this point, municipal pipe network franchise institution is the important guarantee that our country municipal pipe network industry implements scale expansion, positively responses to international competition.

4. The function conversion of government after the municipal pipe network franchise

Implementing municipal pipe network franchise, government must transfer the role from direct operator past to regulator, carries out separations of government and enterprises, government and capital, government and business, the function of government should transfer from traditional mechanism as soon as possible, rebuild the supervision system, it is urgent now. There are following problems in the current supervision system in our country:

From the lateral view, the boundaries of supervision function of government departments at all levels are not clear, divisions of work are not definite, functions are overlapped, multiple supervise and adjust at any time. It increases the coordinated difficulty between regulators, reduces the administrative efficiency, increases the burden on enterprises, and what's worse, enterprises can't determine which department has the legal representative qualification when negotiating, signing a contract. When a contract broken, they either can't determine which one is liable, increasing their risk. Fig.1 is the typical supervision system of heating pipe network in our country cities.

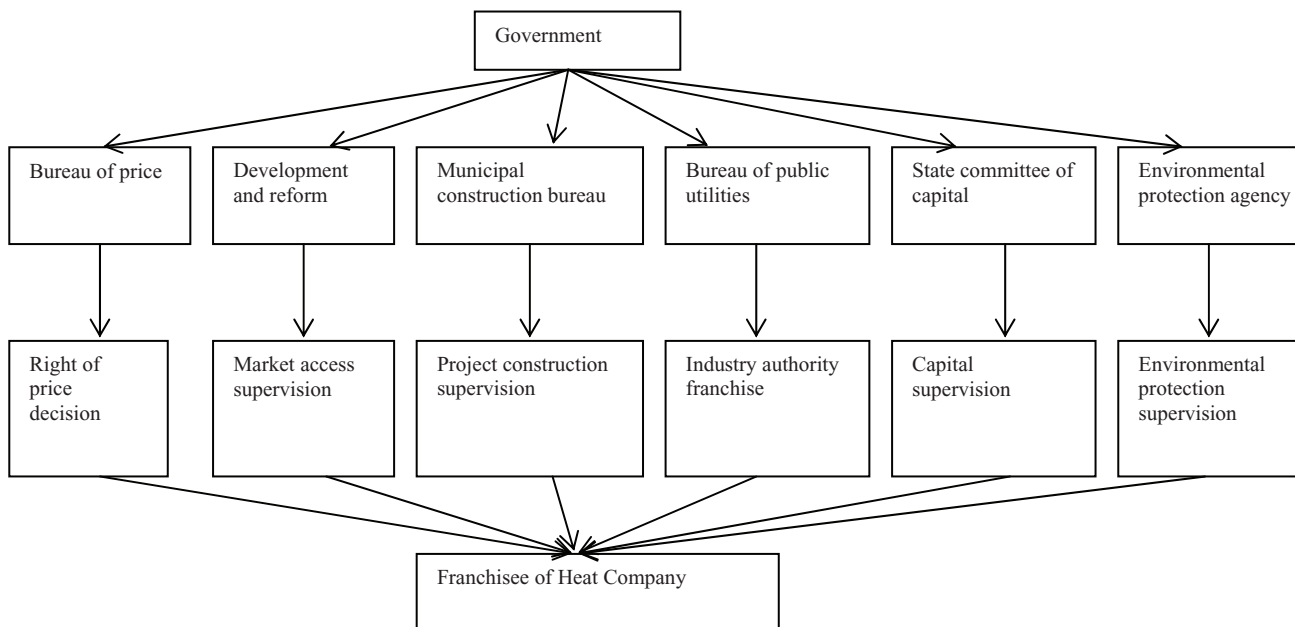


Fig.1. the typical supervision system of heating pipe network in our country cities

From the vertical perspective, the divisions of work between central and local are not reasonable, the vertical supervision rights allocation and lateral lack of coordination mechanism, when conflict between central and local, there lacks of decision mechanism either, this widely happen on the supervisions of spanning regional public utilities, such as telecommunications, electric power and so on.

The way of government supervision is single, the level of supervision is backward, and it has not formed a multi-direction, three-dimensional supervision system. Presently, the main supervision context of our country is economic price supervision and access supervision, but the social supervision just starts; to price supervision, it uses the supervision pattern of enterprise cost + tax + reasonable profit, which couldn't make enough incentive; to access supervision, the choice of franchisees, it often lacks of competition, hard shows the true market cost; the supervision of universal service has not used cross-subsidization, established universal service fund methods to fulfill government duties; at the outside

supervision of enterprises, it has not widely mobilize the power of public and public opinion, the hearing system has not been perfect.

The role conversion of government has not been done completely; it can't deal with the relation of municipal pipe network state-owned assets management function and supervision function very well. Under traditional management system of public utilities, government industry authorities are not only the direct operators and managers of enterprises capital, but also the regulators, it don't separate government and enterprises, government and capital, government and business. But under franchise institution, the value-preserved, value-added of state-owned assets are accomplished by the state-owned assets management through managing the staff, business and capital, hoping to sell the state-owned assets by the highest price in order to achieve the best benefit of owners. Industry authorities become the independent industry managers, they represent the interest of social public, hope customers get the inexpensive and good public products and service by using market competition mechanism maximally, restrict the behavior of enterprises by laws, regulations, franchise agreements. Here comes a contradiction as the different standards that government departments choose the franchisees, that is the contradiction between state-owned assets managements and industry regulators, the former hopes capital preserve and add value while the latter hopes get the best products and service at the lowest price. It is a usual phenomenon that the enterprise satisfying state-owned assets managements is not liked by regulators. About the coordination of this contradiction, it relates to the successful choice of franchisees during the market process of municipal pipe network.

5. Conclusions

The industry of municipal pipe network relates to policies of state and people's livelihood, and the plan, preparation to erect, construction, operation, maintenance of this industry need large capital and long period. The implementation of municipal pipe network franchise institution is helpful to the development of this industry. But under the special circumstance of China, it needs the related policies to implement.

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